LASERS
Louisiana State Employees' Retirement System

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LASERS Responds to Baton Rouge Business Report

On February 5, 2013, the *Baton Rouge Business Report* published an article by Penny Font entitled, "No Escape," which characterized public pensions as generous and unsustainable, ultimately costing the citizens of Louisiana more tax dollars. In attempting to make its point, the article lumps together anecdotal stories from 13 different public retirement systems, ignoring fundamental distinctions.

Further, the article relies on reports by the *Bureau of Governmental Research*, the *Pew Center*, and *Northwestern University*, which have previously been analyzed and criticized* for providing misleading, incomplete, or erroneous information. Of particular note is a recently released report from the Government Accountability Office (GAO) that categorically rejected conclusions set forth by Northwestern University. The GAO found: Referring to the May 15, 2010 report by Joshua Rauh that projected some notably early fund exhaustion dates, "the projected exhaustion dates are ... not realistic estimates of when the funds might actually run out of money." The new GAO report, which is "the most comprehensive government study of public pension plans to date," validates "that the vast majority of plans are adequately funded to meet their current obligations and have adopted systemic and operational reform to ensure their long-term sustainability."

On behalf of LASERS, the retirement system for State employees and elected judges, I would like to call your attention to the following:

- **Private sector employees, by law, participate in a defined benefit plan**: Social Security. And as noted in your report, most also have what is known as a defined contribution or 401(k) type plan.
- **Public sector employees in Louisiana, by law, do not participate in the Social Security** defined benefit plan; nor do they have a 401(k) type plan. Instead, the State of Louisiana decided decades ago that state employees would participate in LASERS.
- **Private sector employees contribute 6.2 percent of payroll** to Social Security. **LASERS rank-and-file members contribute 7.5 to 8.0 percent** of their annual salary toward their retirement benefits. Judges who are LASERS members contribute 11.5 to 13 percent.
- **Private sector employers pay 6.2 percent of payroll** to Social Security. **Louisiana will be contributing 6.1 percent of payroll** for the accruing benefit of its employees.

- **LASERS members are also taxpayers**.
- **The average LASERS rank-and-file employee pension is $21,732 per year**, which can hardly be described as generous.
- **From 1999-2011, Social Security recipients have received 11 cost-of-living adjustments.** Over that same time period, LASERS retirees have received seven such adjustments
- **LASERS retirees have not received a cost-of-living adjustment (COLA) since 2008-2009**, with 22 percent of our retirees receiving payments below the poverty level.
- Pension experts do not "agree that trading a defined benefit plan for a defined contribution plan helps governments remain solvent." In fact, experts have recognized that such a swap does nothing to satisfy existing debt of retirement systems. Read the National Institute on Retirement Security report, *A Better Bang for the Buck*, for this information.

Ms. Font did acknowledge that LASERS realized a 14.3 percent investment return for the calendar year 2012, with a three-year average return of 10 percent. Losses in tough times like 2008 were across the board for all investors, not a "painfully obvious sign" of lack of investment expertise. In fact, LASERS has been ranked in the top ten of pension systems nationally for the past decade. By managing over $3 billion of our fund internally, LASERS will save over $9 million this year; enough to fund the salaries for our entire agency.

The debt owed to LASERS by the State has not "more than tripled . . . largely due to poor investment returns and lawmakers who reduced the debt payment schedule in 1992 and increased benefits in 1993 and 2001." Rather, the debt has grown primarily because of a statutorily enacted, back-loaded, payment schedule and the interest that accrues each year on that debt. But, the legislature has continued to grapple with that debt, making the annual required contributions to it, and modifying the payment schedule in 2010 to realize significant savings. In the next fiscal year, the payments will finally start paying into the principal.

On the current payment schedule, in 10 years the debt owed to LASERS will decrease by nearly $1.5 billion. In 20 years, it is expected to decrease by $4.4 billion.

It is unfortunate that the bold reforms enacted by the legislature since 2005 have been ignored or forgotten by the *Business Report*. In fact, these real reforms are expected to reduce pension costs by nearly $700 million.

The failure by the legislature to adopt recent administration proposals to harshly reduce the benefits of current members of LASERS should not be attributed to fear of losing 500,000 votes, as stated in the article; but, rather, to the recognition that those members received a benefit package as part of their compensation agreement and have contractual and constitutional rights to those benefits. These significant legislative changes modify the benefit structure for future employees and therefore, contain costs. And, contrary to the representation in the article, many of these reforms were recommended in a 2005 report of the Public Affairs Research Council, including:

- Raising the normal retirement age to 60,
- Instituting a sub-plan for hazardous duty employees,
- Instituting a 60-month final average compensation period,
- Building in-house investment expertise,
- Emphasizing passively managed investments, and
- Lowering the 8.25 percent assumed investment return.

LASERS remains committed to achieving strong investment returns and responsibly managing the funds of the more than 100,000 active and retiree members of LASERS. Decisions made that affect the lives and welfare of so many of our citizens should be based on facts. As such, we appreciate the opportunity to set the record straight.

Cindy Rougeou,
LASERS Executive Director

** For more information on LASERS responses to reports by the Pew Center and Northwestern University, please visit the following links:*

- *LASERS Response to Pew Center on the States Report*
- *LASERS Responds to November 8 Times Picayune Report*
- *LASERS Responds to Rauh Report*
- *LASERS Responds to Pension Sustainability Report*
- *NASRA Issues Response to Rauh Report*